

J-30-J		12/2/97	
SUBJECT: Update to our Valued Retail Partners			
DISTRIBUTION:			
<input checked="" type="checkbox"/> AVP	<input checked="" type="checkbox"/> KAM	<input checked="" type="checkbox"/> DM	
<input checked="" type="checkbox"/> RSM	<input checked="" type="checkbox"/> AM	<input checked="" type="checkbox"/> RM	
<input checked="" type="checkbox"/> RBM	<input checked="" type="checkbox"/> AE	<input type="checkbox"/> Sales Rep	
<input checked="" type="checkbox"/> ROM		<input type="checkbox"/> Retail Rep	

(The following letter was U.S. mailed to customers on 12/8/97.)

To Our Valued Retail Partners:

As a category advisor committed to keeping you up to speed on business issues related to cigarettes, I would like to share with you a perspective we have related to the next several months of potential change.

Obviously, there is a lot of uncertainty in how the marketing of Tobacco Products could change at retail in the future; such as:

- The Proposed Resolution for Tobacco is being debated on many different fronts and the final outcome is impossible to predict at this time.
- A final decision on FDA regulation is still up in the air via the appeals process.
- Local restrictions continue to be put in place in selected parts of the United States.

Bottom line. . . there are still a lot of unresolved issues at hand.

Selected Retailers are looking to "get ahead of the curve" and convert to non-self service as quickly as possible. Selected manufacturers are strongly recommending the same.

In our opinion, the risks of making widespread changes now are significant. For example:

- Our research suggests volume declines in cigarette category sales can reach as high as 14% if you convert to non-self-service and your competition does not. What is the total impact of this considering all the other products (in addition to cigarettes) that adult smokers purchase?
- Since the final "rules of the game" are still up in the air, what is the risk of being forced to make additional adjustments to comply with any finalized restrictions?

51845 5031

Our recommendation to considering changes in your merchandising approach are as follows:

1. Come to a decision within your organization on your commitment to be in the cigarette business long term. If your decision is not to suffer through all the disruption and potential reconfiguration that may need to take place, most of the following steps would not apply.
2. Put a test plan in place with the assistance of your manufacturers to clearly understand the logistics, timing required, reconfiguration issues, disruption factors, etc., so that a chain wide implementation plan can be laid out for conversion when the facts regarding final restrictions and compliance dates are clearer. This test plan should include a vision for where products currently on the Backbar will be remerchandised once cigarettes occupy that space.
3. Ensure that the test plan (or actual N/S/S test set) that you put in place deals with what has worked for years in this category. What we at RJR define as the 3 to 5 "P's."
 - Product Availability (stock levels & brand mix)
 - Product Presence (well-organized product visibility)
 - Promotion (effective promotion execution capability)
 - Price (price competitive in the marketplace)
 - Perception by adult smokers that you value their business (smoker/consumer friendly)
4. Keep the end consumer in mind in everything you do for your test. Maximizing brand selection and multiple manufacturer programs will satisfy the most adult consumers possible.
5. Avoid significant brand style discontinuation proposals. Discontinuing brands that you currently have customers for could force your shoppers to competing stores (including cigarette tobacco stores) that do stock their brand of choice. Will those lost consumers take the rest of their business with them?

There obviously are other steps and considerations that will come into play, but we believe these are the major ones.

Hopefully our people in the field have been having discussions with you on these topics. If they haven't, please do not hesitate to contact your local RJR representative.

As always, we greatly appreciate your support in the marketing of our products.

Sincerely,

Jim

J. V. Maguire
Senior Vice President - Sales

51845 5032